

## CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 007

June 27, 1958

### FINANCIAL CORPORATIONS: COMPUTATION OF LIABILITY UPON CHANGE FROM GENERAL BUSINESS CORPORATION

#### Syllabus:

In computing the tax against a corporation which discontinued its general corporate activities and commenced business as a financial corporation the income for the preceding income year is the measure of the tax at the financial rate.

Prior to June, 1948 taxpayer was a general business corporation. In June, 1948 taxpayer sold its general business and engaged in the financing business. Gain from the sale of the general business was reported on the installment basis. For the fiscal year ended June 30, 1949, taxpayer was conducting a financial business, although only a relatively small income was reported from such activities. The principal income for that period was derived from receipts of the installment sale. Advice is requested as to the method of computing the tax against a corporation which discontinued its general corporation activities and commenced to do business as a financial corporation.

The law makes no specific provisions for relief under such circumstances; nor is there any legal precedent for granting relief. The corporation by continuing its existence and operations, though the nature of such operations were changed, is nevertheless subject to a tax measured by the income of the preceding year. Where its operations and activities during the taxable year are such as to classify it as a financial corporation, the income for the preceding year is the measure of the tax at the financial rate. The personal property tax offset theoretically equalizes the burden.

The law provides no method of allocation of the prior year's income as between financial and other general business income. For example, a corporation engaging in both financial and other business operations, the major portion of its activities being financial, is not permitted to allocate its activities, and only the financial rate applies; subject, of course, to the offset.

As to the sale of its auto business, the corporation had an election of either reporting the entire gain in the year of sale or reporting on the installment basis by spreading the gain over the period of receipts from the sale. The taxpayer elected to report on the installment basis and there appears no objection to including such income in the measure of the tax at the financial rate; certainly, there appears to be no authority for excluding it.